ARBOR REALTY TRUST INC
Form 10-Q
November 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-32136

Arbor Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation)	**20-0057959** (I.R.S. Employer Identification No.)
333 Earle Ovington Boulevard, Suite 900 **Uniondale, NY** (Address of principal executive offices)	**11553** (Zip Code)

(516) 506-4200

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common stock, $0.01 par value per share: 51,401,295 outstanding as of November 8, 2016.

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Forward Looking Statements

The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in Arbor Realty Trust, Inc. We urge you to carefully review and consider the various disclosures made by us in this report.

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. We use words such as anticipates, expects, believes, intends, should, will, may and similar expressions to identify forward-looking statements, although no forward-looking statements include these words. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; adverse changes in our status with government-sponsored enterprises (GSEs) affecting our ability to originate loans through GSE programs; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; changes in federal and state laws and regulations, including changes in tax laws; the availability and cost of capital for future investments; and competition. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management s views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Additional information regarding these and other risks and uncertainties we face is contained in our annual report on Form 10-K for the year ended December 31, 2015 (the 2015 Annual Report), Definitive Proxy Statement on Schedule 14A we filed with the Securities and Exchange Commission (SEC) on April 22, 2016 and in our other reports and filings with the SEC.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		September 30, 2016 (Unaudited)		December 31, 2015
Assets:				
Cash and cash equivalents	$	71,613,974	$	188,708,687
Restricted cash		176,615,179		48,301,244
Loans and investments, net		1,656,748,937		1,450,334,341
Loans held-for-sale, net		310,252,600		
Capitalized mortgage servicing rights, net		224,297,210		
Available-for-sale securities, at fair value		5,214,998		2,022,030
Investments in equity affiliates		41,962,338		30,870,235
Real estate owned, net		19,762,787		60,845,509
Real estate held-for-sale, net				8,669,203
Due from related party		493,412		8,082,265
Goodwill and other intangible assets		99,932,986		
Other assets		43,326,307		29,558,430
Total assets	$	2,650,220,728	$	1,827,391,944
Liabilities and Equity:				
Credit facilities and repurchase agreements	$	431,060,399	$	136,252,135
Collateralized loan obligations		1,007,736,720		758,899,661
Senior unsecured notes		94,330,797		93,764,994
Junior subordinated notes to subsidiary trust issuing preferred securities		157,662,855		157,117,130
Mortgage note payable - real estate owned				27,155,000
Related party financing		50,000,000		
Due to related party		18,583,192		3,428,333
Due to borrowers		50,823,894		34,629,595
Allowance for loss-sharing obligations		31,113,413		
Other liabilities		83,477,916		51,054,321
Total liabilities		1,924,789,186		1,262,301,169
Commitments and contingencies (Note 17)				
Equity:				
Arbor Realty Trust, Inc. stockholders equity:				
Preferred stock, cumulative, redeemable, $0.01 par value: 100,000,000 shares authorized; special voting preferred shares; 21,230,769 shares issued and outstanding and no shares issued and outstanding, respectively; 8.25% Series A, $38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding; 7.75%		89,508,213		89,295,905

Series B, $31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding; 8.50% Series C, $22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding				
Common stock, $0.01 par value: 500,000,000 shares authorized; 51,401,295 and 50,962,516 shares issued and outstanding, respectively		514,013		509,625
Additional paid-in capital		619,179,982		616,244,196
Accumulated deficit		(137,441,120)		(136,118,001)
Accumulated other comprehensive loss		(1,142,053)		(4,840,950)
Total Arbor Realty Trust, Inc. stockholders equity		570,619,035		565,090,775
Noncontrolling interest		154,812,507		
Total equity		725,431,542		565,090,775
Total liabilities and equity	$	2,650,220,728	$	1,827,391,944

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest income	$ 29,636,227	$ 26,025,709	$ 83,424,190	$ 79,575,689
Other interest income, net			2,539,274	7,884,344
Interest expense	16,966,228	11,885,363	42,958,329	37,405,492
Net interest income	12,669,999	14,140,346	43,005,135	50,054,541
Other revenue:				
Fee-based services, including gain on sales, net	9,693,822		9,693,822	
Mortgage servicing rights	15,968,067		15,968,067	
Servicing revenue, net	5,885,884		5,885,884	
Property operating income	2,960,940	7,202,851	12,719,027	22,855,028
Other income, net	359,546	51,633	663,977	164,449
Total other revenue	34,868,259	7,254,484	44,930,777	23,019,477
Other expenses:				
Employee compensation and benefits	14,216,679	4,877,059	22,856,433	14,133,403
Selling and administrative	5,903,031	2,063,408	10,277,844	7,442,979
Acquisition costs	6,406,258	1,116,126	10,261,902	1,542,169
Property operating expenses	2,819,004	6,028,585	10,991,823	18,381,317
Depreciation and amortization	1,808,765	1,250,761	3,129,410	4,137,080
Impairment loss on real estate owned			11,200,000	
Provision for loss sharing	1,316,862		1,316,862	
Provision for loan losses (net of recoveries)	(54,000)	277,464	(24,995)	2,353,688
Management fee - related party	3,325,000	2,725,000	8,875,000	8,075,000
Total other expenses	35,741,599	18,338,403	78,884,279	56,065,636
Income before gain on acceleration of deferred income, loss on termination of swaps, gain on sale of real estate, income from equity affiliates and provision for income taxes	11,796,659	3,056,427	9,051,633	17,008,382
Gain on acceleration of deferred income		8,162,720		19,171,882
Loss on termination of swaps		(340,197)		(4,629,647)
Gain on sale of real estate			11,630,687	3,984,364
Income from equity affiliates	4,929,375	6,353,239	11,193,918	10,983,177
Provision for income taxes	(300,000)		(300,000)	
Net income	16,426,034	17,232,189	31,576,238	46,518,158
Preferred stock dividends	1,888,430	1,888,430	5,665,290	5,665,290
Net income attributable to noncontrolling interest	3,649,432		3,649,432	
Net income attributable to common stockholders	$ 10,888,172	$ 15,343,759	$ 22,261,516	$ 40,852,868
Basic earnings per common share	$ 0.21	$ 0.30	$ 0.43	$ 0.80
Diluted earnings per common share	$ 0.21	$ 0.30	$ 0.43	$ 0.80
Weighted average shares outstanding:				
Basic	51,390,467	50,962,516	51,272,795	50,822,444

Diluted	70,271,796	50,962,516	51,627,550	50,917,442
Dividends declared per common share	$ 0.16	$ 0.15	$ 0.46	$ 0.43

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$ 16,426,034	$ 17,232,189	$ 31,576,238	$ 46,518,158
Unrealized (loss) gain on securities available-for-sale, at fair value	(88,184)	(176,368)	(117,579)	246,973
Unrealized gain (loss) on derivative financial instruments, net	66,254	(349,012)	(195,981)	(1,255,739)
Reclassification of net realized loss on derivatives designated as cash flow hedges into loss on termination of swaps		340,197		4,626,192
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	1,316,157	1,467,673	4,012,457	4,709,173
Comprehensive income	17,720,261	18,514,679	35,275,135	54,844,757
Less:				
Comprehensive income attributable to noncontrolling interest	3,974,327		3,974,327	
Preferred stock dividends	1,888,430	1,888,430	5,665,290	5,665,290
Comprehensive income attributable to common stockholders	$ 11,857,504	$ 16,626,249	$ 25,635,518	$ 49,179,467

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Nine Months Ended September 30, 2016

	Arbor Realty Trust, Inc. Stockholders Equity									
	Preferred Stock Shares	**Preferred Stock Value**	**Common Stock Shares**	**Common Stock Par Value**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Total Arbor Realty Trust, Inc. Stockholders Equity**	**Noncontrolling Interest**	**Total**
Balance - January 1, 2016	3,711,500	$ 89,295,905	50,962,516	$ 509,625	$ 616,244,196	$ (136,118,001)	$ (4,840,950)	$ 565,090,775	$	$ 565,(
Issuance of special voting preferred shares and operating partnership units	21,230,769	212,308						212,308	154,559,998	154,7
Stock-based compensation			439,780	4,398	2,935,776			2,940,174		2,9
Forfeiture of unvested restricted stock			(1,001)	(10)	10					
Distributions - common stock						(23,573,786)		(23,573,786)		(23,5
Distributions - preferred stock						(5,665,290)		(5,665,290)		(5,6
Distributions - preferred stock of private REIT						(10,849)		(10,849)		
Distributions - noncontrolling interest									(3,396,923)	(3,3
Net income						27,926,806		27,926,806	3,649,432	31,5
Unrealized loss on securities available-for-sale							(117,579)	(117,579)		(1
							(195,981)	(195,981)		(1

Unrealized loss on derivative financial instruments, net										
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings							4,012,457	4,012,457		4,(
Balance - September 30, 2016	24,942,269	$ 89,508,213	51,401,295	$ 514,013	$ 619,179,982	$ (137,441,120)	$ (1,142,053)	$ 570,619,035	$ 154,812,507	$ 725,4

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30, 2016	2015
Operating activities:		
Net income	$ 31,576,238	$ 46,518,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,129,410	4,137,080
Stock-based compensation	2,940,174	2,890,581
Amortization and accretion of interest and fees, net	2,539,980	1,709,609
Amortization of capitalized mortgage servicing rights	7,586,524	
Originations of loans held-for-sale	(853,935,531)	
Proceeds from sales of loans held-for-sale, net of gain on sale	975,969,372	
Mortgage servicing rights	(15,968,067)	
Write-off of capitalized mortgage servicing rights from payoffs	1,669,081	
Impairment loss on real estate owned	11,200,000	
Provision for loan losses (net of recoveries)	(24,995)	2,353,688
Provision for loss sharing (net of recoveries)	1,316,862	
Gain on acceleration of deferred income		(19,171,882)
Allowance for loss-sharing obligations (net of charge-offs)	(2,131,178)	
Loss on termination of swaps		4,629,647
Gain on sale of real estate	(11,630,687)	(3,984,364)
Gain on sale of securities	(15,491)	
Income from equity affiliates	(11,193,918)	(10,983,177)
Change in fair value of available-for-sale securities	46,021	
Changes in operating assets and liabilities	5,894,972	7,500,170
Net cash provided by operating activities	148,968,767	35,599,510
Investing Activities:		
Loans and investments funded, originated and purchased, net	(725,025,857)	(734,651,094)
Payoffs and paydowns of loans and investments	531,874,076	698,138,074
Acquisition of the Agency Business, net of cash acquired	(68,356,323)	
Deferred fees	7,412,018	3,707,798
Principal collection on securities, net		2,100,000
Investments in real estate, net	(611,497)	(2,025,366)
Contributions to equity affiliates	(4,641,973)	(17,017,972)
Distributions from equity affiliates	731,942	
Proceeds from sale of real estate	49,029,780	18,482,352
Proceeds from sale of available-for-sale securities	1,567,207	
Due to borrowers and reserves	128,492	
Net cash used in investing activities	(207,892,135)	(31,266,208)
Financing activities:		
Proceeds from repurchase agreements, credit facilities and notes payable	1,681,492,236	555,589,837
Paydowns and payoffs of repurchase agreements, loan participations and credit facilities	(1,807,884,108)	(612,512,543)
Proceeds from mortgage note payable - real estate owned		27,155,000
Paydowns and payoffs of mortgage note payable - real estate owned	(27,155,000)	(30,984,357)
Proceeds from collateralized loan obligations	250,250,000	486,625,000
Payoffs and paydowns of collateralized debt obligations		(312,071,055)
Payoffs and paydowns of collateralized loan obligations		(177,000,000)
Change in restricted cash	(123,982,753)	159,223,507

Payments on swaps and margin calls to counterparties		(290,000)
Receipts on swaps and returns of margin calls from counterparties	3,440,049	3,330,000
Distributions paid on common stock	(23,573,786)	(21,850,942)
Distributions paid on preferred stock	(5,665,290)	(5,665,290)
Distributions paid on preferred stock of private REIT	(10,849)	(10,566)
Payment of deferred financing costs	(5,081,844)	(10,676,809)
Net cash (used in) provided by financing activities	(58,171,345)	60,861,782
Net (decrease) increase in cash and cash equivalents	(117,094,713)	65,195,084
Cash and cash equivalents at beginning of period	188,708,687	50,417,745
Cash and cash equivalents at end of period	$ 71,613,974	$ 115,612,829

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Supplemental cash flow information:				
Cash used to pay interest	$	36,287,261	$	32,665,815
Cash used for taxes	$	298,654	$	385,932
Supplemental schedule of non-cash investing and financing activities:				
Distributions accrued on 8.25% Series A preferred stock	$	266,664	$	266,664
Distributions accrued on 7.75% Series B preferred stock	$	203,438	$	203,438
Distributions accrued on 8.50% Series C preferred stock	$	159,375	$	159,375
Distributions accrued on special voting preferred shares	$	3,396,923	$	
Related party financing	$	50,000,000	$	
Payment due on the acquisition of the Agency Business	$	11,416,610	$	
Working capital adjustment on the acquisition of the Agency Business	$	7,982,584	$	
Issuance of special voting preferred shares and operating partnership units in connection with the Acquisition	$	154,772,306	$	
Investments transferred from real estate owned, net to real estate held-for-sale, net	$		$	17,516,488
Loan transferred to real estate owned, net	$		$	5,900,000
Satisfaction of participation loan	$		$	1,300,000
Retirement of participation liability	$		$	1,300,000

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2016

Note 1 Description of Business

Arbor Realty Trust, Inc. (the Company, we, us, or our) is a Maryland corporation that was formed in 2003 and is externally managed and advised by Arbor Commercial Mortgage, LLC (ACM or our Manager). We invest in a diversified portfolio of structured finance assets in the multifamily and commercial real estate markets, primarily consisting of bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity. In addition, we may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. We refer to this platform as our Structured Loan Origination and Investment Business, or Structured Business. As a result of the acquisition of the agency platform of our Manager on July 14, 2016 (the Acquisition), we also now originate, sell and service a range of multifamily finance products through the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or the GSEs), the Government National Mortgage Association (GNMA), Federal Housing Authority (FHA) and the U.S. Department of Housing and Urban Development (together with GNMA and FHA, HUD) and the conduit/commercial mortgage-backed securities (CMBS) programs. We retain the servicing rights and asset management responsibilities on substantially all loans we originate and sell under the GSE and HUD programs. We are approved as a Fannie Mae Delegated Underwriting and Servicing (DUS) lender nationally, a Freddie Mac Multifamily Conventional Loan lender, seller/servicer, in New York, New Jersey and Connecticut, a Freddie Mac affordable, manufactured housing, senior housing and small balance loan (SBL) lender, seller/servicer, nationally and a HUD Map and Lean senior housing/healthcare lender nationally. We refer to this platform as our Agency Loan Origination and Servicing Business, or Agency Business. See Note 3 Acquisition of Our Manager s Agency Platform for further details about the Acquisition.

Substantially all of our operations are conducted through our operating partnership, Arbor Realty Limited Partnership (ARLP), and ARLP s subsidiaries. We organize and conduct our operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. As a result of the Acquisition, we operate in two segments: Structured Business and Agency Business. See Note 23 Segment Information for further details.

Note 2 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), for interim financial statements and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared under GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of our financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our 2015 Annual Report, which was filed with the SEC.

The accompanying unaudited consolidated financial statements include our financial statements, our wholly owned subsidiaries, and partnerships or other joint ventures in which we own a voting interest of greater than 50 percent, and variable interest entities (VIEs) of which we are the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is the party that (i) has the power to control the activities that most significantly impact the VIE s economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Current accounting guidance requires us to present (a) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and (b) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary. Entities in which we have significant influence are accounted for primarily under the equity method.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2016

As a REIT, we are generally not subject to U.S. federal income tax to the extent of our distributions to stockholders and as long as certain asset, income, distribution, ownership and administrative tests are met. To maintain our qualification as a REIT, we must annually distribute at least 90% of our REIT taxable income to our stockholders and meet certain other requirements. We may also be subject to certain state, local and franchise taxes. Under certain circumstances, federal income and excise taxes may be due on our undistributed taxable income. If we were to fail to meet these requirements, we would be subject to U.S. federal income tax, which could have a material adverse impact on our results of operations and amounts available for distributions to our stockholders. We believe that all of the criteria to maintain our REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods.

The Agency Business is operated through a taxable REIT subsidiary (TRS), which is a part of our TRS consolidated group (the TRS Consolidated Group) and may be subject to U.S. federal, state and local income taxes. In general, our TRS entities may hold assets that the REIT cannot hold directly and may engage in real estate or non-real estate-related business. Our TRS Consolidated Group has federal net operating losses from prior years which will be applied against the income from the Agency Business. In the third quarter of 2016, we recorded a tax provision of $0.3 million related to state income tax liability. Current and deferred taxes are recorded on the portion of earnings (losses) recognized by us with respect to our interest in TRSs. Deferred income tax assets and liabilities are calculated based on temporary differences between our U.S. GAAP consolidated financial statements and the federal, state, local tax basis of assets and liabilities as of the consolidated balance sheets. We recorded a deferred tax liability of $14.8 million in connection with the Acquisition, which is included in Other liabilities on the consolidated balance sheets. The deferred tax liability is primarily attributable to the seller financing portion of the consideration paid for the Acquisition. We evaluate the realizability of our deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognize a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of our deferred tax assets will not be realized. When evaluating the realizability of our deferred tax assets, we consider estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that could materially affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Accounting Policies

See Item 8 Financial Statements and Supplementary Data in our 2015 Annual Report for a description of our significant accounting policies. In connection with the Acquisition, we have adopted the following additional significant accounting policies.

Loans Held-for-Sale, Net

Loans held-for-sale, net represents commercial real estate loans originated in our Agency Business, which are generally transferred or sold within 60 days from the date that the mortgage loan is funded. Such loans are reported at the lower of cost or market on an aggregate basis and include the value allocated to the associated future mortgage servicing rights. During the period prior to its sale, interest income on a loan held-for-sale is calculated in accordance with the terms of the individual loan and the loan origination fees and direct loan origination costs are deferred until the loan is sold.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated, put presumptively beyond the reach of the entity, even in bankruptcy, (2) the transferee (or if the transferee is an entity whose sole purpose is to engage in securitization and the entity is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interests) has the right to pledge or exchange the transferred financial assets, and (3) we or our agents does not maintain effective control over the transferred financial assets or third-party beneficial interest related to those transferred assets through an agreement to repurchase them before their maturity. We have determined that all loans sold have met these specific conditions and accounts for all transfers of mortgage loans as completed sales.

Capitalized Mortgage Servicing Rights

We recognize, as separate assets, rights to service mortgage loans for others, including such rights that are created by the origination of mortgage loans that are sold with the servicing rights retained by the originator. Income from mortgage servicing rights (MSRs) is recognized when we record a derivative asset upon the commitment to originate a loan with a borrower and sell the loan to an investor. This commitment asset is recognized at fair value, which reflects the estimated fair value of the expected net cash flows associated with the servicing of the loan. When a mortgage loan is sold, we retain the right to service the loan and recognize the MSR at the initial capitalized valuation. We amortize MSRs using the amortization method, which requires the MSRs to be amortized in proportion to and over the period of estimated net servicing

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income or net servicing loss and that the servicing assets or liabilities be assessed for impairment, or increased obligation, based on the fair value at each reporting date. Amortization of MSRs is recorded as a reduction of servicing revenues, net on the consolidated statements of income. The following assumptions were used in calculating each loan s MSR for the periods presented:

Key rates: We used discount rates ranging from 8% to 18%, representing a weighted average discount rate of 13%, based on management s best estimate of market discount rates to determine the present value of MSRs. The inflation rate used for adequate compensation was 3%.

Servicing Cost: The estimated future cost to service the loan for the estimated life of the MSR is subtracted from the estimated future cash flows.

Estimated Life: We estimate the life of our MSRs based upon the stated yield maintenance and/or prepayment protection term of the underlying loan and may be reduced by 6 to 12 months based upon the expiration of various types of prepayment penalty and/or lockout provisions prior to that stated maturity date.

We carry MSRs at the lower of amortized cost or fair value and evaluate the carrying value for impairment on a portfolio basis quarterly. Fair values are estimated considering market prices for similar MSRs, when available, and by estimating the present value of the future net cash flows of the capitalized MSRs, net of adequate compensation for servicing. Adequate compensation is based on the market rate of similar servicing contracts. We estimate the terms of commercial servicing for each loan by assuming that servicing would not end prior to the yield maintenance date, if applicable, at which point the prepayment penalty expires. MSRs are amortized in proportion to and over the period of estimated net servicing income. We engage an independent third party to assist in determining an estimated fair value of our MSR portfolio on a quarterly basis.

We measure the impairment of MSRs based on the difference between the aggregate carrying amount of the MSRs and their aggregate fair value. For purposes of impairment evaluation, the MSRs are stratified based on predominant risk characteristics of the underlying loans, which we have identified as loan type, note rate and yield maintenance provisions. To the extent that the carrying value of the MSRs exceeds fair value, a valuation allowance is established.

We record write-offs of MSRs related to the loans that were repaid prior to the expected maturity and loans that have defaulted and determined to be unrecoverable. When this occurs, the write-off is recorded as a direct write-down to the carrying value of MSRs and is included as a component of servicing revenue, net on the statements of income. This direct write-down permanently reduces the carrying value of the MSRs, precluding recognition of subsequent recoveries.

Derivative Assets and Liabilities

Our rate lock and forward sales commitments associated with the Agency Business meet the definition of a derivative and are recorded at fair value in our consolidated balance sheets. The estimated fair value of rate lock commitments includes the effects of interest rate movements as well as the fair value of the expected net cash flows associated with the servicing of the loan which is recorded as income from mortgage servicing rights on the consolidated statements of income. The estimated fair value of forward sale commitments includes the effects of interest rate movements between the trade date and balance sheet date. Adjustments to the fair value are reflected as a component of other income, net on the consolidated statements of income.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting, under which the purchase price is allocated to the fair value of the assets acquired and liabilities assumed at the acquisition date. The excess of the purchase price over the amount allocated to the assets acquired and liabilities assumed is recorded as goodwill. Adjustments to the assets acquired and liabilities assumed made during the measurement period are recorded in the period in which the adjustment is identified, with a corresponding adjustment to goodwill. If any adjustments are made subsequent to the measurement period, which could be up to one year after the acquisition date, these adjustments are recorded to the consolidated statements of income. Acquisition related costs are expensed as incurred.

Goodwill and Other Intangible Assets

Significant judgement is required to estimate the fair value of intangible assets and in assigning their respective estimated useful lives. Accordingly, we typically seek the assistance of independent third party valuation specialists for significant intangible assets. The fair value estimates are based on available historical information and on future expectations and assumptions deemed reasonable by management.

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We generally use an income based valuation method to estimate the fair value of intangible assets, which discounts expected future cash flows to present value using estimates and assumptions determined and deemed reasonable by management. For intangible assets related to acquired technology, we use the replacement cost method to determine fair value.

Determining the estimated useful lives of intangible assets also requires judgment. Certain intangible assets, such as GSE licenses, have been deemed to have indefinite lives while other intangible assets, such as broker and borrower relationships, above/below market rent and acquired technology have been deemed to have finite lives. Our assessment as to which intangible assets are deemed to have finite or indefinite lives is based on several factors including economic barriers of entry for the acquired product lines, scarcity of available GSE licenses, technology life cycles, retention trends and our operating plans, among other factors.

Goodwill and indefinite-lived intangible assets are not amortized, while finite-lived intangible assets are amortized over the estimated useful lives of the assets on a straight-line basis. Indefinite-lived intangible assets, including goodwill, are tested for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. In addition, with respect to goodwill, an impairment analysis is performed at least annually. We have elected to make the first day of our fiscal fourth quarter the annual impairment assessment date for goodwill. We first assess qualitative factors to determine whether it is more likely than not that the fair value is less than the carrying value. If, based on that assessment, we believe it is more likely than not that the fair value is less than the carrying value, then a two-step goodwill impairment test is performed.

Allowance for Loss-Sharing Obligations

When a loan is sold under the Fannie Mae DUS program, we undertake an obligation to partially guarantee the performance of the loan. Generally, we are responsible for losses equal to the first 5% of the unpaid principal balance (UPB) and a portion of any additional losses to an overall maximum of 20% of the original principal balance. Fannie Mae bears any remaining loss. In addition, under the terms of the master loss-sharing agreement with Fannie Mae, we are responsible for funding 100% of mortgage delinquencies (principal and interest) and servicing advances (taxes, insurance and foreclosure costs) until the amounts advanced exceeds 5% of the UPB at the date of default. Thereafter, we may request interim loss-sharing adjustments which allow us to fund 25% of such advances until final settlement.

At inception, a liability for the fair value of the obligation undertaken in issuing the guaranty is recognized. In determining the fair value of the guaranty obligation, we consider the risk profile of the collateral and the historical loss experience in our portfolio. The guaranty obligation is removed only upon either the expiration or settlement of the guaranty.

We evaluate the allowance for loss-sharing obligations by monitoring the performance of each loss-sharing loan for events or conditions which may signal a potential default. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. In instances where payment under the guaranty on a specific loan is determined to be probable and estimable (as the loan is probable of foreclosure or is in foreclosure), we record a liability for the estimated allowance for loss-sharing (a specific reserve) by transferring the guarantee obligation recorded on the loan to the specific reserve with any adjustments to this reserve amount recorded in provision for loss sharing in the statements of income, along with a write-off of the associated loan-specific MSR. The amount of the allowance considers our assessment of the likelihood of repayment by the borrower or key principal(s), the risk characteristics of the loan, the loan s risk rating, historical loss experience, adverse situations affecting individual loans, the estimated disposition value of the underlying collateral, and the level of risk sharing. We regularly monitor the specific reserves on all applicable loans and update loss estimates as current information is received.

Revenue Recognition

Fee-based services related to our Agency Business includes commitment fees, broker fees, loan assumption fees, loan origination fees and gains on sale of loans. In some instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, net of any direct loan origination costs incurred, which is

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recognized upon sale of the loan. Revenue recognition occurs when the related services are performed, unless significant contingencies exist, and for the sale of loans, when all the incidence of ownership passes to the buyer. Interest income is recognized on the accrual basis as it is earned from loans held-for-sale.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) amended its guidance to reflect eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for us beginning in the first quarter of 2018 and requires adoption on a retrospective basis, unless it is impracticable for us to apply, in which case, we would be required to apply the amendment prospectively as of the earliest date practicable. We are currently evaluating the impact this guidance may have on our consolidated statement of cash flows.

In June 2016, the FASB issued updated guidance which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Companies will be required to use forward-looking information to better form their credit loss estimates. This updated guidance also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses. The guidance is effective for us beginning in the first quarter of 2020, and early adoption is permitted beginning in the first quarter of 2019. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In March 2016, the FASB amended its guidance on stock compensation, which is intended to simplify several aspects of the accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for the first quarter of 2017 and we do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In March 2016, the FASB amended its guidance on accounting for equity method investments. Among other things, the amended guidance eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The guidance is effective for the first quarter of 2017 and we do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In February 2016, the FASB amended its guidance on accounting for leases that requires an entity to recognize balance sheet assets and liabilities for leases with terms of more than 12 months and also requires disclosure of key information about an entity s leasing arrangements. The guidance is effective for the first quarter of 2019 with early adoption permitted. A modified retrospective approach is required. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In January 2016, the FASB amended its guidance on the recognition and measurement of financial assets and liabilities. The amended guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair

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value recognized in net income. This update also, among other things, eliminates the requirement for an entity to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The guidance is effective for the first quarter of 2018 and we are currently evaluating the impact it may have on our consolidated financial statements.

In May 2014, the FASB amended its revenue recognition guidance. Among other things, the amended guidance outlines a framework for a single comprehensive model that entities can use when accounting for revenue and supersedes most current revenue recognition guidance, including that which pertains to specific industries such as homebuilding (e.g., sales of real estate, etc.). The core principle states that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods and services. It also requires expanded quantitative and qualitative disclosures that will enable the users of an entity s financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for the first quarter of 2018. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In September 2015, the FASB amended its guidance on measurement-period adjustments arising from business combinations. The guidance was effective for the first quarter of 2016 and it did not have an impact on our consolidated financial statements.

In February 2015, the FASB amended its guidance on the consolidation analysis of VIEs. The guidance was effective for the first quarter of 2016 and it did not have a material impact on our consolidated financial statements. See Note 15 Variable Interest Entities for further details.

Note 3 Acquisition of Our Manager s Agency Platform

On July 14, 2016, we completed the previously announced Acquisition pursuant to an asset purchase agreement (Purchase Agreement) dated February 25, 2016. The aggregate purchase price was $275.8 million, which was paid with $138.0 million in stock, $87.8 million in cash and with the issuance of a $50.0 million seller financing instrument. The equity component of the purchase price was paid with 21,230,769 operating partnership units (OP Units), which was based on a stock price of $6.50 per share. The closing price of our common stock on the day of the Acquisition was $7.29 per share; therefore, the estimated fair value of the total consideration given to our Manager was $292.5 million. Each of these OP Units are paired with one share of our Special Voting Preferred Shares, which provides ACM with one vote per share on any matter submitted to a vote of our stockholders. The OP Units are entitled to receive distributions if and when our Board of Directors authorizes and declares future common stock distributions. The OP Units are also redeemable for cash, or at our option, for shares of our common stock on a one-for-one basis. See Note 12 Debt Obligations for further details about the seller financing and Note 18 Equity for further details about the OP Units.

All ACM employees directly related to the Agency Business (approximately 235) have become our employees as of the Acquisition date. In addition, pursuant to the Purchase Agreement, we have a two year option to purchase the existing management agreement and fully internalize our management structure for $25.0 million (increasing to $27.0 million in the second year). The exercise of this option is at the discretion of the special committee of our Board of Directors, which has no obligation to exercise its option.

We performed a preliminary allocation of the purchase price to the underlying assets acquired and liabilities assumed based on their estimated fair values as of the Acquisition date, with the excess of the purchase price allocated to goodwill. We have not finalized the analysis of certain acquired assets and liabilities assumed. However, we are continuing our review of these items during the measurement period and any further changes to the preliminary purchase price allocation will be recognized as the valuations are finalized, which could change the amount of the purchase price allocated to goodwill. The preliminary purchase price allocations are summarized as follows:

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Purchase Price:		
Issuance of 21,230,769 OP Units at $7.29 per share (based on the closing stock price at the date of Acquisition)	$	154,772,306
Cash on hand		87,755,517
Borrowings from seller financing - related party		50,000,000
Total consideration	$	292,527,823
Allocated to:		
Cash and cash equivalents	$	7,982,584
Restricted cash		5,000,000
Loans held-for-sale, net		424,796,318
Available-for-sale securities, at fair value		4,908,283
Capitalized mortgage servicing rights, net		221,647,421
Fixed assets		5,216,972
Other assets		10,752,173
Finite-lived intangible assets		44,310,000
Infinite-lived intangible assets		29,000,000
Credit facilities and repurchase agrements		(420,889,886)
Allowance for loss-sharing obligations		(32,616,821)
Other liabilities		(35,369,251)
Goodwill		27,790,030
Net assets acquired	$	292,527,823

In connection with the Acquisition, we recorded goodwill as a result of the total consideration exceeding the fair value of the assets acquired and liabilities assumed. The Goodwill was attributed to our Agency Business as it relates to the assets we acquired in the Acquisition. See Note 4 Goodwill and Other Intangible Assets for further details about the identified intangible assets.

The total revenues and pre-tax income associated with the Agency Business from the date of Acquisition, which is included in the consolidated statements of income for both the three and nine months ended September 30, 2016, were $34.5 million and $14.3 million, respectively.

The following unaudited pro forma financial information presents the revenues and earnings of the combined entity, as if the Acquisition occurred as of January 1, 2015. The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated financial results of operations that would have been reported had the Acquisition been completed as of January 1, 2015 and should not be taken as indicative of our future consolidated results of operations.

	Nine Months Ended September 30,			
Supplementary Pro Forma Information		**2016**		**2015**
Revenues	$	212,136,723	$	198,178,465
Net income attributable to noncontrolling interest	$	18,262,614	$	17,338,814

Net income attributable to common stockholders	$	40,329,043	$	41,543,271
Diluted earnings per common share	$	0.78	$	0.82

In connection with the Acquisition, we incurred legal and advisory fees totaling $6.4 million and $10.3 million during the three and nine months ended September 30, 2016, respectively, and fees totaling $14.7 million to date. We do not expect to recognize any significant additional fees in connection with the Acquisition.

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Note 4 Goodwill and Other Intangible Assets

Goodwill

The following table sets forth the goodwill activity for the nine months ended September 30, 2016:

	As of and for the Nine Months Ended September 30, 2016	
Beginning balance	$	
Additions from the Acquisition		27,790,030
Impairment		
Ending balance	$	27,790,030

Other Intangible Assets

The following table sets forth the other intangible assets activity for the nine months ended September 30, 2016:

	Gross Carrying Value						Accumulated Amortization					
	December 31, 2015		Additions		September 30, 2016		December 31, 2015		Additions		September 30, 2016	
Finite-lived intangible assets:												
Broker relationships	$		$	25,000,000	$	25,000,000	$		$	651,042	$	651,042
Borrower relationships				14,400,000		14,400,000				300,000		300,000
Below market leases				4,010,000		4,010,000				153,502		153,502
Acquired technology				900,000		900,000				62,500		62,500
Infinite-lived intangible assets:												
Fannie Mae DUS license				17,100,000		17,100,000						
Freddie Mac Program Plus license				8,700,000		8,700,000						
FHA license				3,200,000		3,200,000						
	$		$	73,310,000	$	73,310,000	$		$	1,167,044	$	1,167,044

The finite-lived intangible assets recorded in connection with the Acquisition have the following useful lives: broker relationships 8 years; borrower relationships 10 years; below market leases 3.5-10.6 years and acquired technology 3 years.

The weighted average remaining lives of our amortizable finite-lived intangible assets as of September 30, 2016 and the estimated amortization expense for each of the succeeding five years are as follows:

	Weighted Average Remaining Life (in years)	Estimated Amortization Expense					
		Three Months Ended December 31,	Years Ending December 31,				
		2016	2017	2018	2019	2020	2021
Finite-lived intangible assets:							
Broker relationships	7.8	$ 781,250	$ 3,125,000	$ 3,125,000	$ 3,125,000	$ 3,125,000	$ 3,125,000
Borrower relationships	9.8	360,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000
Below market leases	6.3	184,203	736,811	736,811	736,811	684,137	126,118
Acquired technology	2.8	75,000	300,000	300,000	162,500		
	8.2	$ 1,400,453	$ 5,601,811	$ 5,601,811	$ 5,464,311	$ 5,249,137	$ 4,691,118

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Note 5 Loans and Investments

The following tables set forth the composition of our structured loan and investment portfolio:

	September 30, 2016	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	Wtd. Avg. First Dollar LTV Ratio (2)	Wtd. Avg. Last Dollar LTV Ratio (3)
Bridge loans	$ 1,566,037,772	89%	120	5.34%	17.1	0%	74%
Mezzanine loans	51,181,279	3%	11	8.84%	20.3	36%	78%
Junior participation loans	62,256,582	4%	2	4.50%	7.0	83%	84%
Preferred equity investments	71,596,941	4%	10	6.79%	26.4	43%	92%
	1,751,072,574	100%	143	5.47%	17.2	6%	75%
Unearned revenue	(10,507,062)						
Allowance for loan losses	(83,816,575)						
Loans and investments, net	$ 1,656,748,937						

	December 31, 2015	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	Wtd. Avg. First Dollar LTV Ratio (2)	Wtd. Avg. Last Dollar LTV Ratio (3)
Bridge loans	$ 1,353,132,435	88%	105	5.48%	16.7	0%	75%
Mezzanine loans	40,390,905	3%	11	8.19%	32.9	35%	83%
Junior participation loans	62,256,582	4%	2	4.50%	11.2	85%	87%
Preferred equity investments	89,346,123	5%	10	7.52%	30.5	43%	80%
	1,545,126,045	100%	128	5.63%	17.7	7%	76%
Unearned revenue	(8,030,129)						
Allowance for loan losses	(86,761,575)						
Loans and investments, net	$ 1,450,334,341						

(1) Weighted Average Pay Rate is a weighted average, based on the UPB of each loan in our portfolio, of the interest rate that is required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest Accrual Rate to be paid at the maturity are not included in the weighted average pay rate as shown in the table.

(2) The First Dollar LTV Ratio is calculated by comparing the total of our senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will absorb a total loss of our position.

(3) The Last Dollar LTV Ratio is calculated by comparing the total of the carrying value of our loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which we will initially absorb a loss.

During the first quarter of 2015, we acquired a $116.0 million defaulted first mortgage, at par, that paid off in the subsequent quarter resulting in the recognition of income totaling $6.7 million, net of fees and expenses. The $6.7 million of income consisted of other interest income totaling $7.9 million, partially offset by $1.2 million of expenses related to this transaction that were recorded in employee compensation and benefits. In the second quarter of 2016, additional funds held in escrow from the note payoff were released following an arbitration proceeding and we recognized income totaling $1.9 million, net of fees and expenses. The $1.9 million of income consisted of other interest income totaling $2.5 million, partially offset by $0.6 million of expenses related to the transaction that were recorded in employee compensation and benefits.

Concentration of Credit Risk

Commercial mortgage loans and investments can potentially subject us to concentrations of credit risk. We are subject to concentration risk in that, at September 30, 2016, the UPB related to 34 loans with five different borrowers represented 18% of total assets. At December 31, 2015, the UPB related to 22 loans with five different borrowers represented 22% of total assets. We measure our relative loss position for our mezzanine loans, junior participation loans, and preferred equity investments by determining the point where we will be exposed to losses

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based on our position in the capital stack as compared to the fair value of the underlying collateral. We determine our loss position on both a first dollar loan-to-value (LTV) and a last dollar LTV basis.

We assign a credit risk rating to each loan and investment. Individual ratings range from one to five, with one being the lowest risk and five being the highest. Each credit risk rating has benchmark guidelines that pertain to debt-service coverage ratios, LTV ratios, borrower strength, asset quality, and funded cash reserves. Other factors such as guarantees, market strength, remaining loan term, and borrower equity are also reviewed and factored into determining the credit risk rating assigned to each loan. This metric provides a helpful snapshot of portfolio quality and credit risk. Given our asset management approach, however, the risk rating process does not result in differing levels of diligence contingent upon credit rating. That is because all portfolio assets are subject to the level of scrutiny and ongoing analysis consistent with that of a high-risk loan. Assets are subject to, at minimum, a thorough quarterly financial evaluation in which historical operating performance and forward-looking projections are reviewed. Generally speaking, given our typical loan and investment profile, a risk rating of three suggests that we expect the loan to make both principal and interest payments according to the contractual terms of the loan agreement, and is not considered impaired. A risk rating of four indicates we anticipate that the loan will require a modification of some kind. A risk rating of five indicates we expect the loan to underperform over its term, and there could be loss of interest and/or principal. Ratings of 3.5 and 4.5 generally indicate loans that have characteristics of both the immediately higher and lower classifications. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, condition of the market of the underlying collateral, additional collateral or other credit enhancements, or loan terms, may result in a rating that is higher or lower than might be indicated by any risk rating matrix.

As a result of the loan review process at September 30, 2016 and December 31, 2015, we identified loans and investments that we consider higher-risk loans that had a carrying value, before loan loss reserves, of $152.1 million and $154.7 million, respectively, and a weighted average last dollar LTV ratio of 94% and 99%, respectively.

A summary of the loan portfolio s weighted average internal risk ratings and LTV ratios by asset class is as follows:

	September 30, 2016				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**Wtd. Avg. First Dollar LTV Ratio**	**Wtd. Avg. Last Dollar LTV Ratio**
Multifamily	$ 1,404,683,724	80%	2.9	1%	74%
Office	135,716,939	8%	3.4	44%	71%
Land	136,341,553	8%	3.9	4%	92%
Hotel	55,592,025	3%	3.8	38%	81%
Other	18,738,333	1%	3.2	23%	72%
Total	$ 1,751,072,574	100%	3.0	6%	75%

	December 31, 2015				
Multifamily	$ 1,083,822,788	70%	3.0	2%	75%
Office	198,829,086	13%	3.0	27%	75%
Land	164,410,838	11%	3.8	5%	90%
Hotel	66,250,000	4%	3.5	32%	80%
Other	31,813,333	2%	3.1	13%	67%
Total	$ 1,545,126,045	100%	3.1	7%	76%

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Geographic Concentration Risk

As of September 30, 2016, 26%, 15%, 15% and 13% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Florida, California and Texas, respectively. As of December 31, 2015, 34%, 14%, 14% and 12% of the outstanding balance of our loan and investment portfolio had underlying properties in New York, Florida, California and Texas, respectively.

Impaired Loans and Allowance for Loan Losses

We perform an evaluation of the loan portfolio quarterly to assess the performance of our loans and whether a reserve for impairment should be recorded. We consider a loan impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due for both principal and accrued interest according to the contractual terms of the loan agreement.

A summary of the changes in the allowance for loan losses is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Allowance at beginning of period	$ 83,831,575	$ 117,563,544	$ 86,761,575	$ 115,487,320
Provision for loan losses		982,453	59,005	3,093,082
Charge-offs		(32,000,000)	(2,959,005)	(32,000,000)
Charge-off on loan reclassification to real estate owned, net		(2,500,000)		(2,500,000)
Recoveries of reserves	(15,000)	(685,489)	(45,000)	(719,894)
Allownace at end of period	$ 83,816,575	$ 83,360,508	$ 83,816,575	$ 83,360,508

During the second quarter of 2016, we received a $1.8 million discounted payoff on an impaired bridge loan with an aggregate carrying value before reserves of $4.8 million, resulting in the recognition of an additional provision for loan losses of $0.1 million and a charge-off of $3.0 million.

The provision for loan losses recorded in the three and nine months ended September 30, 2015 was comprised of two loans and four loans, respectively, with aggregate carrying values before reserves of $117.2 million and $130.2 million, respectively. The provision for loan losses recorded in the nine month period included a loan that was transferred to real estate owned with a carrying value before reserves of $8.3 million.

During the three and nine months ended September 30, 2015, we charged-off $32.0 million of previously recorded reserves due to the write-off of a fully reserved junior participation loan. We also charged-off $2.5 million in connection with the transfer of an office building by deed in lieu of foreclosure to real estate owned, net.

A summary of charge-offs and recoveries by asset class are as follows:

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	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Charge-offs:				
Hotel	$	$ 32,000,000	$	$ 32,000,000
Office		2,500,000		2,500,000
Multifamily			2,959,005	
Total	$	$ 34,500,000	$ 2,959,005	$ 34,500,000
Recoveries:				
Multifamily	$ (15,000)	$ (685,489)	$ (45,000)	$ (719,894)
Total	$ (15,000)	$ (685,489)	$ (45,000)	$ (719,894)
Net Recoveries (Charge-offs)	$ 15,000	$ (33,814,511)	$ (2,914,005)	$ (33,780,106)
Ratio of net recoveries (charge-offs) during the period to average loans and investments outstanding during the period	0.0%	(2.0)%	(0.2)%	(2.1)%

There were no loans for which the fair value of the collateral securing the loan was less than the carrying value of the loan for which we had not recorded a provision for loan loss as of September 30, 2016 and 2015.

We have six loans with a carrying value totaling $120.2 million at September 30, 2016, which mature in September 2017, that are collateralized by a land development project. The loans do not carry a current pay rate of interest, but five of the loans with a carrying value totaling $110.9 million entitle us to a weighted average accrual rate of interest of 8.18%. We suspended the recording of the accrual rate of interest on these loans, as these loans were impaired and we deemed the collection of this interest to be doubtful. We have recorded cumulative allowances for loan losses of $49.1 million related to these loans as of September 30, 2016. The loans are subject to certain risks associated with a development project including, but not limited to, availability of construction financing, increases in projected construction costs, demand for the development s outputs upon completion of the project, and litigation risk. Additionally, these loans were not classified as non-performing as the borrower is in compliance with all of the terms and conditions of the loans.

A summary of our impaired loans by asset class is as follows:

Asset Class	Unpaid Principal	September 30, 2016 Carrying Value (1)	Allowance for Loan Losses	Three Months Ended September 30, 2016 Average Recorded Investment (2)	Three Months Ended September 30, 2016 Interest Income Recognized	Nine Months Ended September 30, 2016 Average Recorded Investment (2)	Nine Months Ended September 30, 2016 Interest Income Recognized

	Balance						
Multifamily	$ 2,647,115	$ 2,555,618	$ 2,560,653	$ 2,654,615	$ 22,937	$ 5,004,615	$ 134,142
Office	27,567,082	22,782,944	21,972,444	27,569,332	23,601	27,573,832	69,763
Land	130,012,569	125,011,860	53,883,478	130,012,569		128,740,618	
Hotel	34,750,000	34,400,000	3,700,000	34,750,000	291,542	34,750,000	857,459
Commercial	1,700,000	1,700,000	1,700,000	1,700,000		1,700,000	
Total	$ 196,676,766	$ 186,450,422	$ 83,816,575	$ 196,686,516	$ 338,080	$ 197,769,065	$ 1,061,364

	December 31, 2015			Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
Multifamily	$ 7,362,115	$ 7,350,764	$ 5,505,653	$ 23,291,302	$ 109,115	$ 23,308,505	$ 253,096
Office	27,580,582	22,796,444	21,972,444	31,835,832	1,225,877	31,835,832	1,782,922
Land	127,468,667	122,875,774	53,883,478	124,865,743		123,742,628	
Hotel	34,750,000	34,486,433	3,700,000	34,750,000	264,898	34,750,000	782,926
Commercial	1,700,000	1,700,000	1,700,000				
Total	$ 198,861,364	$ 189,209,415	$ 86,761,575	$ 214,742,877	$ 1,599,890	$ 213,636,965	$ 2,818,944

(1) Represents the UPB of impaired loans less unearned revenue and other holdbacks and adjustments by asset class and was comprised of nine loans at both September 30, 2016 and December 31, 2015.

(2) Represents an average of the beginning and ending UPB of each asset class.

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As of September 30, 2016, four loans with an aggregate net carrying value of $1.7 million, net of related loan loss reserves on the loans of $22.9 million, were classified as non-performing. As of December 31, 2015, three loans with an aggregate net carrying value of less than $0.1 million, net of related loan loss reserves on the loans of $22.9 million, were classified as non-performing. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

A summary of our non-performing loans by asset class is as follows:

	September 30, 2016			December 31, 2015		
Asset Class	**Carrying Value**	**Less Than 90 Days Past Due**	**Greater Than 90 Days Past Due**	**Carrying Value**	**Less Than 90 Days Past Due**	**Greater Than 90 Days Past Due**
Multifamily	$ 770,653	$	$ 770,653	$ 765,799	$	$ 765,799
Office	22,170,795		22,170,795	20,472,444		20,472,444
Commercial	1,700,000		1,700,000	1,700,000		1,700,000
Total	$ 24,641,448	$	$ 24,641,448	$ 22,938,243	$	$ 22,938,243

At September 30, 2016, we did not have any loans contractually past due 90 days or more that are still accruing interest.

A summary of loan modifications, refinancings and/or extensions by asset class that we considered to be troubled debt restructurings were as follows:

	Three Months Ended September 30, 2016					Nine Months Ended September 30, 2016				
Asset Class	**Number of Loans**	**Original Unpaid Principal Balance**	**Original Weighted Average Rate of Interest**	**Extended Unpaid Principal Balance**	**Extended Weighted Average Rate of Interest**	**Number of Loans**	**Original Unpaid Principal Balance**	**Original Weighted Average Rate of Interest**	**Extended Unpaid Principal Balance**	**Extended Weighted Average Rate of Interest**
Multifamily	1	$ 14,646,456	5.33%	$ 14,646,456	5.33%	1	$ 14,646,456	5.33%	$ 14,646,456	5.33%
Office	1	2,315,000	4.03%	2,315,000	4.03%	1	2,315,000	4.03%	2,315,000	4.03%
Total	2	$ 16,961,456	5.15%	$ 16,961,456	5.15%	2	$ 16,961,456	5.15%	$ 16,961,456	5.15%
	Three Months Ended September 30, 2015					**Nine Months Ended September 30, 2015**				
Multifamily		$		$		5	$ 35,609,122	5.12%	$ 35,609,122	5.12%

Office	1		2,430,000	3.69%		2,430,000	3.69%	1		2,430,000	3.69%		2,430,000	3.69%
Total	1	$	2,430,000	3.69%	$	2,430,000	3.69%	6	$	38,039,122	5.03%	$	38,039,122	5.03%

There were no loans in which we considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of September 30, 2016 and 2015 and no additional loans were considered to be impaired due to our troubled debt restructuring analysis for the three and nine months ended September 30, 2016 and 2015. These loans were modified to increase the total recovery of the combined principal and interest from the loan.

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. As of September 30, 2016, we had total interest reserves of $19.0 million on 74 loans with an aggregate UPB of $953.3 million.

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Note 6 Loans Held-for-Sale, Net

Loans held-for-sale, net consists of the following:

		September 30, 2016
Fannie Mae	$	238,273,732
Freddie Mac		52,697,000
FHA		11,123,451
		302,094,183
Fair value of future MSR		7,909,431
Unearned discount		248,986
Loans held-for-sale, net	$	310,252,600

Our loans held-for-sale, net are typically sold within 60 days of the origination date. At September 30, 2016, there were no loans that were 90 days or more past due, and there were no loans that were placed on a non-accrual status. In both the three and nine months ended September 30, 2016, we sold $551.8 million of loans held-for-sale, excluding $418.2 million of sales related to loans that were acquired on July 14, 2016 as part of the Acquisition, and recorded gains on sale of $9.0 million, which in included in Fee-based services, including gain on sales, net on the consolidated statements of income.

Note 7 Available-for-Sale Securities

Our available-for-sale securities generally consist of equity securities and agency commercial mortgage interest-only securities (Agency IOs) from loans sold and securitized under the Freddie Mac Small Balance Loan Program (SBL Program).

Equity Securities

We own common stock of CV Holdings, Inc., formerly Realty Finance Corporation, which is a commercial real estate specialty finance company. In addition, we purchased a federal home loan mortgage corporation security at a premium for $1.6 million in the fourth quarter of 2015. This security bore interest at a fixed rate of 3.241% with a scheduled maturity in 2024. We sold this security in January 2016 for $1.6 million and recognized a gain of less than $0.1 million. These securities are classified as available-for-sale and are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss.

The following is a summary of the equity securities classified as available-for-sale:

	September 30, 2016			
	Face Value	Amortized Cost	Cummulative Unrealized Gain	Carrying Value / Estimated Fair Value
2,939,465 common shares of CV Holdings, Inc	$	$ 58,789	$ 293,947	$ 352,736

	December 31, 2015			
Federal Home Loan Mortgage Corporation	$ 1,500,000	$ 1,551,716	$	$ 1,551,716
2,939,465 common shares of CV Holdings, Inc		58,789	411,525	470,314
Total available-for-sale securities	$ 1,500,000	$ 1,610,505	$ 411,525	$ 2,022,030

Agency IOs

In connection with the Acquisition, we are now an approved seller/servicer under the SBL Program and we originate and sell loans to Freddie Mac, which are then pooled and securitized. Prior to the Acquisition and upon securitization of SBL Program loans, we received Agency IOs under the SBL Program that are classified as available-for-sale. We elected the fair value option for the Agency IOs, which requires changes in fair value to be recognized through earnings. We record such gains and losses to Fee-based services, including gain on sales, net on the consolidated statements of income. As a result of recent changes in the Freddie Mac SBL Program, we do not expect to receive Agency IOs from future securitizations.

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A summary of our Agency IOs activity is as follows:

		Three and Nine Months Ended September 30, 2016
Balance at beginning of period	$	
Additions from the Acquisition		4,908,283
Settlements		(46,021)
Balance at end of period	$	4,862,262

Additionally, as part of the SBL Program securitizations, we are required to purchase the bottom tranche bond, generally referred to as the B Piece, that represents the bottom 10%, or highest risk of the securitization. We have an agreement in place whereby a third party investor agreed to purchase the B Piece from the SBL Program securitization, at par, upon issuance of all securitizations related to us, resulting in the transfer of the risk to the purchaser of the bond.

Note 8 Investments in Equity Affiliates

We account for all investments in equity affiliates under the equity method. The following is a summary of our investments in equity affiliates:

Equity Affiliates	Investments in Equity Affiliates at				UPB of Loans to Equity Affiliates at	
		September 30, 2016		December 31, 2015		September 30, 2016
Arbor Residential Investor LLC	$	36,961,286	$	25,923,679	$	
West Shore Café		2,015,932		1,955,933		1,687,500
Lightstone Value Plus REIT L.P		1,894,727		1,894,727		
Issuers of Junior Subordinated Notes		578,000		578,000		
JT Prime		425,000		425,000		
East River Portfolio		87,293		92,796		1,705,938
Lexford Portfolio		100		100		
Ritz-Carlton Club						
Total	$	41,962,338	$	30,870,235	$	3,393,438

Arbor Residential Investor LLC (ARI) In the first quarter of 2015, we invested $9.6 million for 50% of our Manager s indirect interest in a joint venture with a third party that was formed to invest in a residential mortgage banking business. As a result of this transaction, we had an initial indirect interest of 22.5% in the mortgage banking business, which is subject to dilution upon attaining certain profit hurdles of the business. During the three and nine months ended September 30, 2016, we recorded $3.9 million and $8.5 million, respectively, and during the three and nine months ended September 30, 2015, we recorded $1.3 million and $5.9 million, respectively, to income from equity affiliates in our consolidated statements of income related to this investment.

In the first quarter of 2015, we invested $1.7 million through ARI for a 50% non-controlling interest in a joint venture that invests in non-qualified residential mortgages purchased from the mortgage banking business s origination platform. We also funded $7.9 million and $4.6 million of additional mortgage purchases during 2015 and the nine